

21 JUL 1958

MEMORANDUM FOR: Director of Central Intelligence
THROUGH: Acting Deputy Director/Intelligence
SUBJECT: Comment on July 1958 Fortune Editorial,
"The Russian Recession"

1. This memorandum is for information only. It is in response to your request of yesterday for comment on the subject editorial. Fortune makes four key assertions:

a. Soviet GNP is scarcely growing at all; industrial production increased only about 6 percent in 1957 and the rate is probably still falling.

b. Industrial labor productivity in the USSR has fallen from 6 percent a year in the 1950-55 period to 3 percent a year today.

c. Soviet agriculture is having a second bad year; the virgin lands gamble has been a disastrous failure.

d. State investment in non-housing facilities grew 3 percent in 1957 and the planned rate of increase for 1958 was only 4 percent; further these figures are in rubles which must be adjusted downward "to allow for the recent inflation in the USSR."

EGIB

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2. Our best estimates of Soviet economic development, keyed to Fortune's four assertions are:

a. Because of a decline in agricultural output, Soviet GNP increased only 6 percent in 1957, and our preliminary estimate for 1958 is for an increase of 7 to 8 percent. The ORR index of industrial production shows an annual rate of increase of 9 to 10 percent for 1956 and 1957. We have not yet made an estimate for 1958. The 1965 goals recently announced by the Soviets for key commodities imply a future rate of growth of slightly better than 10 percent annually.

b. It is true that Soviet industrial labor productivity has not maintained the annual rates of increase achieved in the 1950-55 period (6.5 to 7.4 percent). However, productivity increased 5.8 percent in 1957, and should at least maintain this rate in 1958. This is far above Fortune's 3 percent estimated for 1958.

c. It is not correct to say that Soviet agriculture is having its second successive bad year or that the virgin lands gamble has been a disastrous failure. The 1957 harvest did not equal the record harvest of 1956, but it was a thoroughly respectable one. Sugar beet output was at an

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all time high and grain output was as large as in any postwar year except 1956. As of now, we expect that the 1958 harvest will be greater than the one in 1957. Although bad years in the new lands are expected, even by the Soviet leaders, its output has made significant contributions to Soviet grain supplies. The new lands accounted for more than 20 percent of the Soviet grain harvest in 1956 and almost 15 percent in 1957. In addition, it has tended to even out year-to-year fluctuations in the size of the harvest.

4. Soviet state investment in non-housing facilities grew 6.7 percent in 1957 compared with 1956 (not 8 percent as Fortune claimed). In 1958, we estimate an increase of 7.9 percent over 1957 (not 4 percent as Fortune estimates). We are unaware of "recent inflation in the USSR" which would require downward adjustment of investment data.

3. In summary, the Fortune article is a gross distortion of recent economic trends in the Soviet Union. Informal contact with Demitri Shimkin, to whom Fortune attributes their estimates, reveals his non-agreement with the article's conclusions.

OTTO E. GUTHE
Assistant Director
Research and Reports

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EDITORIAL

The Russian "Recession"

While the U.S. economy is showing new signs of strength, the economy of the Soviet Union is in serious trouble. The evidence for the former statement may be found in FORTUNE's Business Roundup (see page 37). The evidence for the latter will be detailed below; but first it may be relevant to note that the Soviet economic difficulties, unlike our own, have been a fairly well kept secret. Indeed, many Americans have allowed themselves to be bamboozled into believing all sorts of legends about a prodigious Soviet economic growth that will enable the Russians to surpass us soon, at least in industrial production. Nikita Khrushchev's repeated assertions to this effect—"I don't know about the time, but the lines are bound to cross"—have not been challenged in many places. Allen Dulles, the Director of the U.S. Central Intelligence Agency, contributed to the legend with a speech delivered in April, in which he cited, without challenging, the Russians' claim that their industrial production was up 11 per cent in the past year. Worse yet, the U.S. State Department recently credited them with "an average increase of possibly as much as 7 per cent yearly in gross national product."

Statements like this, coming at the bot-

tom of a U.S. recession, seemed to lend an especial urgency to the appeals of Americans who wanted the federal government to "do something" drastic about the slowdown in U.S. business activity. The logic was always a bit cloudy, but somehow or other it appeared that the Russians' relentless economic growth provided an argument for desperate measures here—for big tax cuts and public-works projects, at least. The brightening in our own economic situation will presumably silence this talk now. In any case, the talk was scarcely in line with the facts about the Soviet economy.

Soviet industrial production is not growing by 11 per cent or any such awesome figure, and Soviet G.N.P. is scarcely growing at all. There are serious distortions and imbalances in the Soviet economy. It seems likely, in fact, that Soviet economic difficulties are responsible for the bizarre performance put on by Khrushchev in the matter of trade and aid.

Consistency has never been his strong point, of course; his record has been that of a master improviser, of a man who will embrace any eternal principle that serves his immediate requirements. But in his statements on Yugoslavia and American aid he

has got his principles tangled almost comically. First, he denounced the Yugoslavs for accepting American aid, which, he asserted, has political strings attached to it. Then he demonstrated that Soviet aid has some strings attached when he unilaterally canceled a \$285-million credit to Tito, who is again out of favor in Moscow. At about the same time, Khrushchev dispatched a note to President Eisenhower suggesting some American aid for the U.S.S.R.—in the form of credits to be used for the purchase of consumer-goods manufacturing equipment. But he did not explain why American dollars were less tainted in his hands than in Tito's; nor did he explain why the faltering front-runner in a race should have to help out a rival supposedly about to pass him.

The fact is that Khrushchev's economy needs all the help it can get. The pressures on him are clear enough, in any case.

One part of his problem is the declining rate of growth in Soviet industrial production. It was gaining by 9 per cent a year in the early 1950's, about 8 per cent in 1956, and about 6 per cent last year; the rate is probably still receding somewhat. The earlier growth rates reflected the recovery from wartime dislocation, and they were made

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